Adjustable rate vs. fixed-rate mortgages

Which is the right home loan for you?

When you are buying a home, you can choose an adjustable-rate mortgage or a fixed-rate mortgage. What are the advantages and disadvantages of these home loans? Read our comparison and find out!

What is an adjustable-rate mortgage?

With an adjustable-rate mortgage (or “ARM”), your interest rate can vary through the life of the loan. ARMs usually have an introductory period during which the rate is fixed. After this period, the rate can change and your monthly interest payments might go up or down as a result.

One common adjustable-rate mortgage is a 5/1 ARM. With this loan, your interest rate is fixed for the first five years and then can adjust yearly through the remaining life of the loan.

Most ARMs adjust their rates based on a financial index. Some adjustable-rate mortgages have limits on the amount your rate can increase in one year and over the life of the loan. These limits are called “rate caps.” When you are choosing an ARM, be sure you understand how the rate can adjust and how much your payment could increase or decrease at each adjustment period and over the life of the loan.

What are the advantages of an adjustable-rate mortgage?

Adjustable rate mortgages frequently have lower starting interest rates than fixed-rate mortgages. This means you will pay less money in interest during the introductory period. If you plan to own your home for a shorter period of time, a lower introductory rate can save you money on your monthly mortgage payment.

If rates change, you may get a lower rate when your ARM resets without the paperwork of a typical mortgage refinance.

What are the disadvantages of an adjustable-rate mortgage?

Your interest rate and monthly interest payments can increase with an adjustable rate mortgage when your ARM resets. If you are planning to own your home for a longer period of time,
increases may cost you more money over the life of the loan. Understanding how your rate may change can be complicated and your monthly interest payments could be less predictable. Make sure you discuss how your rate and payments may reset with your lender.

**What is a fixed-rate mortgage?**

With a fixed-rate mortgage, your interest rate stays the same throughout the life of the loan. You’ll pay the same rate each month no matter what is happening to interest rates in the market.

**What are the advantages of a fixed-rate mortgage?**

Many homebuyers like the peace of mind knowing their interest payments won’t increase. Fixed rate mortgages are easier to understand. And when you plan to own your home for a longer period of time, a fixed rate might save you money.

**What are the disadvantages of a fixed-rate mortgage?**

Fixed-rate mortgages typically have higher rates than the starting interest rates on adjustable-rate mortgages. This means you may pay more money in interest at the beginning of the loan.

When interest rates go down, you won’t automatically benefit from the decrease. You will need to refinance your current mortgage, which often involves paperwork and fees, to get a lower rate.

**Ask us about adjustable and fixed-rate mortgages**

Would you like to speak to one of our loan specialists about your mortgage options? Please visit our [Get Started] page or call 877-220-5533.